

STATEMENT FOR THE RECORD

Thomas M. Sullivan

Chief Counsel for Advocacy

United States Small Business Administration

The President's Proposal to Increase Small Business Expensing

Subcommittee on Tax, Finance and Exports

Committee on Small Business

United States House of Representatives

Thursday, April 3, 2003

Chairman Toomey and Members of the Subcommittee:

Thank you for this opportunity to submit comments for the record. My name is Thomas Sullivan and I am the Chief Counsel for Advocacy at the Small Business Administration (SBA). Congress established the Office of Advocacy to represent the views of small entities before Federal agencies and Congress. The Office of Advocacy is an independent entity so the views expressed in this statement do not necessarily reflect the views of the SBA or the Administration.

I commend you and the Subcommittee for your leadership in holding a hearing to underscore the importance of the President's efforts to expand section 179 of the Internal Revenue Code providing for small business expensing. As your hearing disclosed, this effort has the strong support of the small business community. The President's proposal would increase the amount of qualifying property that a taxpayer can elect to expense during the tax year from \$25,000 to \$75,000 and would be very beneficial to small businesses. In addition, the threshold limit for phasing out the election is raised to \$325,000 thereby making the benefits of the provision available to a larger group of small businesses.

Expanding section 179 specifically helps small business by dramatically reducing the paperwork required to account for the capitalization of the purchased property. A study performed by my office showed that, under current law, small businesses spend almost twice as much per dollar of sales on tax compliance as their large competitors.¹ Anything Congress can do to simplify tax recordkeeping will help small businesses cut costs and be more competitive.

This proposal also improves small businesses' ability to retain and accumulate capital for growth. It reduces the cost of capital for purchases by a significant amount. Cost of capital is another area where small businesses have a built-in disadvantage relative to large businesses.

The hearing showed that trade associations are strong supporters of the President's proposal. Small business groups with which we work strongly support the increased expensing, particularly

¹ See *The Impact of Regulatory Costs on Small Firms*, Office of Advocacy, Crain and Hopkins, 2001, where the cost of tax related regulatory compliance per employee was found to be more than twice as expensive for small businesses (firms with fewer than twenty employees) than large businesses (firms with over 500 employees).

the delegates to the White House Conference on Small Business. Increased expensing was one of the top recommendations made by the 2,000 delegates to the Conference representing the 25,000 small business owners who participated nationwide.²

The President has made jobs the centerpiece for his economic plan. Advocacy studies have shown that small businesses lead the Nation out of recessions and create 60 to 80 percent of net new jobs in any given year.³ The President's expensing proposal can help small businesses spur the economy by stimulating purchases and increasing productivity.

The Office of Advocacy is ready to work with you and other Members of Congress to support enactment of this proposal and additional measures that benefit small businesses. The President's proposal gives small businesses the kind of simple, straightforward assistance necessary to help them take the initiative to invest in their future.

Thank you for your efforts on behalf of small businesses. Please feel free to call on me if I can be of assistance to you or the Subcommittee.

² *Foundation for a New Century - Report on the Implementation of the Recommendations of the 1995 White House Conference on Small Business*; Office of Advocacy, U.S. Small Business Administration; 1995, p. 48.

³ Office of Advocacy, U.S. Small Business Administration, from data provided by the U.S. Bureau of Census. The figure is based on net new jobs for businesses with fewer than 500 employees for the last decade. See <http://www.sba.gov/advo/stats/sbfaq.pdf>